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**Next 2 Page(s) In Document Exempt**

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March 1969

PERUVIAN SEIZURE OF IPC ASSETS

The government of former President Fernando Belaunde Terry of Peru was constitutionally elected in 1963 for a six-year term with solid voter support. Yet his administration encountered serious national political and economic problems. The congress was dominated by the opposition party. A serious economic downturn in 1967 resulted in a 31 per cent devaluation of the sol and excessive capital outflow. Belaunde's problems were compounded by pressure from the military who forced through sizeable purchases of equipment, including French jet aircraft, at a time of severe budgetary difficulties. When there were disclosures of corruption in high government circles, including the military, and the possibility grew that the Apristas, a liberal party traditionally hated by the military, would win an election sweep in 1969, the military group, led by General Juan Velasco, made plans to act.

When political tensions were even further increased because of dissatisfaction at the top levels of the military and among some civilian elements with the government's settlement with the International Petroleum Company (IPC), a split developed within Belaunde's own party, followed by a change in the cabinet and, finally, the coup. The timing and motivation of the coup may have been largely personal on Velasco's part, since he and Belaunde had had their personal as well as professional difficulties, and he himself was scheduled to retire in early 1969. Whatever his timing and motivation, his junta represents a small clique of high-ranking military officers that had no popular power base at the outset, and which desperately needed support to sustain itself.

Background of Expropriation

One of the pretexts for the military overthrow of the constitutional government of Peru on 3 October 1968 had been the latter's settlement of Peru's long-standing dispute with the International Petroleum Company (IPC), a Canadian corporation owned almost entirely by Standard Oil Company of New Jersey. According to the Act of Talara, which the Belaunde government signed on 31 August 1968, the IPC was to surrender its claim to ownership of oil-fields at La Brea and Parinas in return for cancellation of the government's claim to more than \$144 million in alleged excess profits and back taxes. The company was to retain its refinery at Talara as well as its extensive distribution and marketing facilities. The oilfields were to be managed by the government-owned State Petroleum Enterprise (EFP) and the IPC was to buy the output of the fields at a "fair" price for processing at the Talara refinery.

The military junta, led by Major-General Juan Velasco Alvarado, violently objected to the settlement, claiming that years ago IPC had illegally acquired its oil concession in Peru, and that the company's agreement with the Belaunde government meant the IPC would remain in full control

of the Talara complex while freed of the huge debt in taxes claimed by Peru. One of the junta's first acts, therefore, was to nullify the settlement on 4 October and, on 9 October, to expropriate much of the company's holdings in Peru, including La Brea and Parinas oil fields and the refinery at Talara. The expropriation instantly boosted the popularity of the junta and brought it widespread popular and political support. Celebrations were held throughout the country in an effort to rally political parties and civic and professional groups in support of President Velasco and the junta. At that time three large U.S. mining companies and other U.S. petroleum companies operating in Peru were assured by the Minister of Development that the government's action against the IPC was exceptional and that their operations would be "scrupulously respected."

Meanwhile, rumors were growing that the president's advisory group, composed mainly of radical-nationalist colonels and a group of leftist attorneys, was urging the government to expropriate immediately the remaining assets of the IPC as a means of gaining additional and badly needed revenues, and also as a means of emphasizing to other foreign investors that the demands of the new government must be met. In the final months of 1968, the government stepped up its propaganda campaign against the IPC, which included a series of articles critical of the company in the pro-government newspaper El Comercio.

In mid-January the government's oil trust, the EPF, unilaterally broke off talks over the question of prices of the oil products sold through IPC's extensive marketing and distribution system, demanded that the IPC pay \$14.4 million for these products at an average price of \$3.34 per barrel and announced that failure of the company to make such payment would lead to the attachment and sale of its remaining assets. At the same time, the company's funds were frozen and no cash expenditures were permitted without the approval of the court-appointed military officers who had been monitoring IPC's operations to protect the EPF's claim. When the IPC appealed the EPF action in late January, the government took over administrative control of the distribution apparatus and the IPC share in the Lobitos oilfields, and threatened to auction off all of the company's holdings, valued at more than \$200 million if payment of the \$14.4 million debt was not made by 5 February. The legal procedure for these actions was enacted by decree-law of 31 December, which requires payment first before judicial hearing.

Current Status of Dispute

Most recently, the government has announced that the company owes the state more than \$690 million which is, in effect, the valuation the regime puts on all oil taken by the company from La Brea and Parinas fields in the past forty-five years of its operations in Peru. (The fields were bought by IPC from a British concern in 1924 and, according to a grant which pre-dates the Peruvian Constitution, the title to them includes subsurface rights. When the Peruvian Constitution was later

adopted it reserved all subsurface riches for the state, but made no provision for settling existing private holdings of subsurface rights. On this basis, nationalists have continually attacked the company's subsurface title.) In a highly emotional and nationalistic television and radio address to the nation on 6 February, President Velasco declared his regime had already started to take steps to collect this debt "to close definitely and forever this ignominious chapter in Peruvian history." Although the General did not specify what measures would ultimately be taken, it was obvious that all IPC holdings would at least have to be taken to satisfy the debt, since their value is something less than half of the amount the junta claims is owed to the "Peruvian people." Thus there would be no compensation for the assets expropriated on 9 October.

U.S. Sanctions: Hickenlooper Amendment and U.S. Sugar Act

Although the claims of the Peruvian Government and the IPC had long been in conflict, the case had not directly involved the Government of the United States. However, it did immediately become involved by the Peruvian act of expropriation because of a provision of the United States law known as the Hickenlooper Amendment to the Foreign Assistance Act, which was passed in 1962. In essence, this law simply provides that the Government of the United States shall not grant economic aid to foreign countries which expropriate the holdings of American citizens or companies without due compensation or without commencing negotiations which, within six months after the seizure, promise to lead to fair and just compensation. The law does not reject the principle of expropriation, a sovereign right of every nation and one which has long been fully recognized by the United States. It does reflect the accepted norm of international law that compensation must be paid. Obviously the law was designed to prevent tax monies paid by American citizens from being given to other countries which seize American assets and do not pay for them. The law is fully accepted in the United States. Indeed, U.S. citizens are irritated that, after giving over \$100 billion dollars in foreign aid since World War II (including a total of \$550 million to Peru), foreign countries should now feel in the position to demand the continuance of aid, as if by right, at the same time that they confiscate U.S. holdings without recompense. In his radio and television address, President Velasco referred to the "celebrated and profoundly sad" Hickenlooper Amendment, which he said he hoped would not be applied to Peru and would be "thrown out and never mentioned again." That provision of U.S. law as it applies to assistance will be invoked 4 April unless Peru takes steps to settle the problem. April 4 is six months from 4 October, the date of the nullification of the IPC-Peruvian contracts called the Act of Talara.

The confiscation of the IPC holdings also causes the automatic withdrawal of preferential treatment accorded Peru under another United States law, the U.S. Sugar Act of 1948. This law, which was designed to provide a stable market for sugar producing nations and to protect them from the vagaries of wide fluctuations of prices on the world

sugar market, provides quotas within which sugar producing countries can sell sugar within the United States at a price which is currently well above the world market price (6.6¢ per pound versus 2¢). Last year total Peruvian sales in the United States amounted to \$45 million, of which \$33 million amounted to a subsidy above world market prices. Because sugar is one of the country's major crops, Peruvian economists believe a cutoff of the U.S. quota may wreck the industry in that country, causing major unemployment. This suspension would be effective on 9 April, six months after the 9 October expropriation.

Division Within the Junta

In view of the junta's announcement on 25 January that Velasco, who became eligible at the end of January for retirement from the army, will retain the post of President, a change to a more moderate official line appears unlikely in the foreseeable future. It has become known, however, that there is a division in the government between the ultra-nationalists, under Velasco, and the moderates, whose spokesman, Ernesto Montagne, is Prime Minister and also Minister of Defense and Commanding General of the Army. The latter group includes, among others, members of navy and air-force staffs who are discontented with the dominance of the army in the regime. If this group should eventually gain control, there would probably be hope of improvement in Peruvian-U.S. relations.

Relations With Soviet Union

To further complicate the present situation, Peru established diplomatic relations with the Soviet Union on 1 February, which was highly publicized and widely supported in the local press. This marked a sharp reversal of Soviet policy toward the coup, which Izvestiya referred to on 10 October 1968 as "another gorilla operation." The Soviet ambassador to Chile, who was in Lima for the exchange of diplomatic notes, said that the USSR could supply Peru with machinery and equipment for its oil industry and also heavy farm equipment and passenger airplanes. The Soviet Union is the fourth Communist country with which the Peruvian junta has established diplomatic or commercial relations in its five-month existence, having previously had diplomatic or commercial negotiations with Rumania, Yugoslavia and Czechoslovakia. Opening of relations with Peru is the first time since the close of World War II that the Soviets have recognized a Latin American military government that came to power by means of a coup. The Soviets immediately sent a five-man commercial mission to Peru with promises of aid and technical assistance. Although there were indications that Peruvian officials were disappointed in Soviet offers of aid and trade, a trade agreement between the two was signed 17 February. First reports indicate it calls for the Soviets to provide credit to both the Peruvian government and private enterprise for the purchase of heavy machinery from the Soviet Union.

Other Actions by Peru

In the meantime, relations between Peru and the United States deteriorated still further when the Peruvian Navy opened fire on an American fishing boat and captured another while more than 50 miles off Peru's coast. The seized vessel was released after paying a fine of \$7000. The U.S. protested the incident since it (like almost every country in the world) does not recognize a claim such as Peru's to the territorial limit of 200 miles offshore.

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The Peruvian junta has now embarked on a campaign to win hemisphere-wide support for its position on the IPC issue. This has begun with the calling of a conference in Lima of Peruvian representatives to all Latin American countries to coordinate diplomatic and propaganda action against the United States.

Sólo Para Uso Como  
Material de Fondo

Marzo 1969

APODERASE EL PERU DE LA IPC

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El gobierno del ex presidente Fernando Belaúnde Terry del Perú fue elegido constitucionalmente en 1963 por un término de seis años. A pesar de que contaba con un amplio apoyo popular, su administración pronto tuvo que hacerle frente a serios problemas domésticos de tipo político y económico. Por una parte, el Congreso estaba dominado por la oposición; por otra, un descenso económico importante en 1967 había ocasionado la devaluación del sol en un 31 por ciento y la fuga excesiva de capital hacia el exterior.

Los problemas del Presidente Belaúnde se agravaron por la presión de los militares, quienes obligaron al régimen a adquirir grandes cantidades de equipos militares, entre ellos aviones a reacción franceses, a pesar de las enormes dificultades presupuestarias de la Nación.

Al hacerse públicas ciertas revelaciones sobre la corrupción en las altas esferas civiles y militares del gobierno y aumentar las posibilidades de triunfo de los apristas--corriente liberal tradicionalmente odiada por los militares--en las elecciones de 1969, el grupo de oficiales encabezado por el General Juan Velasco se preparó para actuar.

Agudizada más aún la tensión política por el descontento de los más altos niveles militares y de algunos elementos civiles por el acuerdo entre el gobierno y la International Petroleum Company (IPC), dentro del propio partido de Belaúnde se produjo una escisión, que fue seguida por cambios en el gabinete y, finalmente, por el golpe de estado.

Los motivos y la selección del momento oportuno para el golpe pueden haber sido escogidos personalmente por Velasco, pues éste y Belaúnde habían tenido disgustos personales y profesionales y el propio Velasco debía retirarse a principios de 1969.

-2-

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Sin que importen los motivos o la selección del momento, su Junta representa a una pequeña camarilla de altos oficiales militares que carecía en un principio de apoyo popular y que necesitaba desesperadamente algún respaldo para mantenerse en el poder.

Antecedentes de la Expropiación

Uno de los pretextos para el derrocamiento militar del gobierno constitucional del Perú el 3 de octubre de 1968 había sido la decisión del régimen de solucionar la vieja disputa con la International Petroleum Company, firma canadiense controlada casi totalmente por la Esso Standard Oil de New Jersey.

De acuerdo con el Acta de Talara, que el gobierno de Belaúnde suscribió el 31 de agosto de 1968, la IPC dejaría de reclamar como propios los campos petrolíferos de La Brea y Pariñas a cambio de la cancelación de la demanda que hacía el gobierno por más de \$144 millones por supuestas utilidades excesivas e impuestos atrasados.

La compañía retendría su refinería de Talara así como su vasto sistema de distribución y comercio. Los campos petrolíferos serían administrados por la empresa petrolera del estado, la EPF. Por su parte, la IPC compraría la producción de los campos a un precio "justo" para su elaboración en la refinería de Talara.

La junta militar encabezada por el Mayor General Juan Velasco Alvarado se opuso violentamente al acuerdo, manteniendo que hacía años que la IPC había adquirido ilegalmente su concesión petrolera en el Perú y que el convenio con el gobierno de Belaúnde significaba que la IPC retendría el control total del complejo de Talara en tanto que quedaba libre de la enorme deuda de impuestos reclamada por Perú. Por tanto, una de las primeras medidas de la junta fue anular el convenio el 4 de octubre y expropiar el 9 de octubre la mayor parte de los bienes de la compañía en el Perú, entre ellos los campos de La Brea y Pariñas y la refinería de Talara.

-3-

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La expropiación multiplicó inmediatamente la popularidad de la junta con el consiguiente respaldo popular y político. Se efectuaron manifestaciones en todo el país en un esfuerzo por obtener el apoyo de los partidos políticos y de las agrupaciones cívicas y profesionales en favor del Presidente Velasco y la Junta.

En aquella oportunidad el ministro peruano de Fomento le aseguró a tres grandes compañías mineras y a otras empresas petroleras norteamericanas en el Perú que la acción del gobierno contra la IPC era excepcional y que las operaciones de aquellas serían "respetadas escrupulosamente".

Entretanto, aumentaban los rumores que el grupo asesor del Presidente, compuesto en su mayoría de coroneles radicalnacionalistas y de ciertos abogados izquierdistas, estaba aconsejando al gobierno a que expropiara inmediatamente los bienes restantes de la IPC como medio de recaudar mayores ingresos, muy necesitados, y para hacerle saber a otros inversionistas extranjeros que las demandas del nuevo régimen tenían que ser aceptadas.

Hacia fines de 1968 el gobierno acrecentó su campaña de propaganda contra la IPC, y El Comercio, diario de tendencia gubernamental, publicó una serie de artículos que criticaban a la compañía.

A mediados de enero el monopolio petrolero oficial --la EPF-- unilateralmente rompió las negociaciones sobre el precio de los productos de petróleo vendidos a través del vasto sistema de distribución y comercio de la IPC, exigió que la IPC pagara \$14.4 millones por esos productos al precio promedio de \$3.34 por barril y anunció que de no hacer efectivo el pago se produciría la incautación y venta de los bienes restantes de la compañía.

Al propio tiempo se congelaron los fondos de la IPC y no se le permitieron gastos al contado sin el visto bueno de los oficiales militares designados por el tribunal que habían estado fiscalizando las operaciones de la IPC para proteger las reclamaciones de la EPF.

-4-

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Al apelar la IPC la acción de la EPF a fines de enero pasado, el gobierno asumió el control administrativo del aparato de distribución y de la parte de la IPC en los campos de Lobitos, amenazando con vender en subasta pública todos los bienes de la compañía, valorados en más de \$200 millones, si no se liquidaba la deuda de \$14.4 millones antes del 5 de febrero. El procedimiento legal para estas acciones quedó establecido por decreto ley de 31 de diciembre, que exige el pago antes de la vista judicial.

Estado Actual de la Querella

El gobierno ha anunciado recientemente que la compañía le debe al estado más de \$690 millones, que viene a ser, en realidad, el valor que el régimen le atribuye a todo el petróleo extraído por la IPC de los campos de La Brea y Parímas en los últimos 45 años de sus operaciones en el Perú. (Los campos fueron adquiridos por la IPC de una empresa británica en 1924, y de acuerdo con la concesión de fecha anterior a la Constitución del Perú, el título conlleva los derechos en el subsuelo. Al ser adoptada más tarde la Constitución, ésta reservó para el Estado todas las riquezas del subsuelo, pero no dictó disposiciones para la solución de las tenencias privadas existentes de derechos del subsuelo. Sobre esa base los nacionalistas han atacado constantemente el título de la IPC al subsuelo.)

En un discurso emotivo y nacionalista pronunciado ante el país por radio y televisión el 6 de febrero, el Presidente Velasco manifestó que su régimen ya había iniciado los pasos para cobrar la deuda con el objeto de "cerrar definitivamente y para siempre este ignominioso capítulo en la historia del Perú".

Aunque el general no precisó las medidas que serían tomadas, era evidente que por lo menos todos los bienes de la IPC tendrían que ser incautados para satisfacer la deuda, ya que su valor es algo menos que la mitad de la suma que la junta dice que se le debe al "pueblo peruano". Por tanto, no habría compensación por los bienes expropiados el 9 de octubre.

-5-

Sanciones de EE.UU.: La Enmienda  
Hickenlooper y la Ley Azucarera

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A pesar de que las reclamaciones del gobierno peruano y la IPC habían estado en conflicto desde hace mucho tiempo, el gobierno de los Estados Unidos no se había visto envuelto directamente en el caso. Sin embargo, sí se vio afectado inmediatamente por el decreto de expropiación peruano a causa de la disposición conocida como la Enmienda Hickenlooper y aprobada en 1962 de la ley norteamericana de ayuda al exterior.

Esta ley dispone, fundamentalmente, que el gobierno de los EE.UU. no podrá conceder ayuda económica a países extranjeros que expropien las tenencias de ciudadanos o empresas norteamericanas sin compensación justa o sin iniciar negociaciones que en el plazo de seis meses a partir de la incautación prometan llegar a una compensación justa y honesta.

La ley no rechaza el principio de expropiación, derecho de soberanía de toda nación que por largo tiempo ha sido reconocido plenamente por los Estados Unidos, si refleja la norma aceptada de derecho internacional que hay que pagar la compensación.

Es evidente que la ley fue aprobada con el objeto de impedir que el dinero pagado en calidad de impuestos por los ciudadanos norteamericanos sea entregado a otros países que se posean de bienes norteamericanos sin pagar por ellos. La ley tiene plena aceptación en los Estados Unidos. Es más: los ciudadanos norteamericanos están irritados porque después de haber repartido más de cien mil millones de dólares en ayuda al extranjero desde la II Guerra Mundial--incluso un total de \$550 millones al Perú--, algunos países se creen ahora en condiciones de exigir que continúe la ayuda, como cosa de derecho, mientras que proceden a la confiscación de las propiedades norteamericanas sin compensación alguna.

En su discurso por radio y televisión el Presidente Velasco se refirió a la "célebre y profundamente triste" Enmienda Hickenlooper, la cual dijo que esperaba no fuera aplicada al Perú y que fuera "descartada y jamás mencionada otra vez".

-6-

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Esa disposición de la ley norteamericana, tal y como se aplica a la ayuda exterior, será invocada el 4 de abril a no ser que el Perú tome medidas para solucionar el problema. El 4 de abril es exactamente seis meses después del 4 de octubre, fecha en que quedó anulado el contrato peruano-IPC conocido como el Acta de Talara.

La confiscación de los bienes de la IPC también produce en forma automática el retiro del trato preferencial extendido al Perú de acuerdo con otra ley de EE.UU., el Acta Azucarera de 1948. Dicha ley, cuya intención era ofrecer un mercado estable para las naciones productoras de azúcar y protegerlas de los caprichos de las amplias fluctuaciones en los precios en el mercado azucarero mundial, instituye cuotas dentro de las cuales los países productores de azúcar pueden vender en Estados Unidos a un precio que actualmente sobrepasa con mucho al del mercado mundial ( 6.6 centavos contra 2 centavos de dólar).

El año pasado el volumen total de ventas peruanas en EE.UU. fue de 45 millones de dólares, de cuyo total \$33 millones equivalieron a un subsidio por encima de los precios del mercado mundial. Debido a que el azúcar es uno de los principales productos del Perú, los economistas peruanos creen que la suspensión de la cuota por parte de los Estados Unidos puede arruinar la industria azucarera y causar grave desempleo en esa nación. Esta suspensión será efectiva el 9 de abril, seis meses después de la expropiación del 9 de octubre.

#### División en la Junta

Con el aviso de la junta hecho el 25 de enero que Velasco, quien tenía derecho a retirarse del Ejército a fines de mes, permanecerá en el cargo de Presidente, no se vislumbra en un futuro previsible un cambio a una línea oficial más moderada.

Sin embargo, existe una división entre los ultranacionalistas de Velasco y los moderados, cuyo portavoz, Ernesto Montagne, es primer ministro, ministro de Defensa y Comandante General del Ejército. Este último grupo cuenta con el apoyo, entre otros, de miembros de los estados mayores de Marina y Aviación que están descontentos con el predominio del Ejército en el régimen. Si dicho grupo llegase a tomar las riendas del poder, probablemente habría perspectivas de mejoramiento en las relaciones peruanos-norteamericanas.

-7-

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### Relaciones con la Unión Soviética

Para mayor complicación de la situación actual, el primero de febrero el Perú estableció relaciones diplomáticas con la Unión Soviética con gran publicidad y amplio apoyo de la prensa del país. El acontecimiento indicó un reverso total de la actitud soviética hacia el golpe militar, al cual Izvestia se había referido el 10 de octubre de 1968 como "otra operación gorila".

El embajador soviético en Chile, quien fue a Lima para el intercambio de notas diplomáticas, manifestó que la URSS podría suministrarle al Perú maquinaria y equipo para su industria petrolera, así como equipo agrícola pesado y aviones de pasaje.

La Unión Soviética es el cuarto país comunista con el cual la junta peruana ha establecido relaciones diplomáticas o comerciales en sus cinco meses de existencia, ya que anteriormente tenía relaciones diplomáticas o comerciales con Rumania, Yugoslavia y Checoslovaquia.

El inicio de relaciones con el Perú es la primera vez después de la II Guerra Mundial que los soviéticos han reconocido a un gobierno militar latinoamericano que llegó al poder por medio de un golpe.

Los soviéticos enviaron inmediatamente al Perú una misión comercial de cinco miembros con promesas de ayuda y asistencia técnica.

No obstante los indicios que los funcionarios peruanos no estaban satisfechos con las ofertas soviéticas de ayuda y comercio, se suscribió el 17 de febrero un convenio comercial entre ambos países. Los primeros informes indican que los soviéticos le otorgarán créditos tanto al gobierno como a la empresa privada del Perú para la adquisición de maquinaria pesada en la Unión Soviética.

-8-

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Otras Acciones del Perú

Entretanto, se produjo otro deterioro en las relaciones entre el Perú y los Estados Unidos a consecuencia que unidades navales peruanas abrieron fuego contra un pesquero norteamericano y capturaron a otro a más de 50 millas de la costa peruana. El barco apresado fue puesto en libertad después que pagó una multa de \$7000.

Estados Unidos protestó el incidente, ya que no reconoce--como casi todos los países del mundo--una reclamación, tal como la del Perú, sobre los límites de aguas jurisdiccionales a 200 millas de la costa.

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La junta peruana se ha dedicado actualmente a una campaña por conquistar la solidaridad del Hemisferio en el caso de la IPC. Ha comenzado con la convocatoria de una conferencia en Lima de representantes diplomáticos peruanos ante todos los países latinoamericanos para coordinar la acción diplomática y de propaganda contra los EE.UU.

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# Seizure frays Peru-U.S. ties

By James Nelson Goodsell  
Latin America correspondent of  
The Christian Science Monitor

Lima, Peru

A major confrontation between Peru and the United States is developing in the wake of last week's total seizure of a large United States oil firm here.

Although United States officials on the scene and in Washington are seeking to dampen the issue, there is a feeling here that relations between the two nations are worsening.

This feeling persists despite a statement by Fernando Berckemeyer, the Peruvian Ambassador to Washington, that no additional expropriations are expected. Here in Lima, the mood of the government seems less conciliatory and concern is widespread.

The American business community is clearly worried. So are businessmen from other countries—West Germany, England, France, Australia. But the focus of Peruvian nationalism is on the American firms, particularly those which are large conglomerates doing millions of dollars of business yearly.

## Firms listed

In addition to the seized oil firm, the International Petroleum Corporation, these firms are the Cerro Corporation, the Peruvian subsidiary of the Xerox Corporation, and the Peruvian Telephone Company, a subsidiary of International Telephone and Telegraph Company. Together, these firms represent the largest single body of business taxpayers in Peru.

One outcome of the current hassle is a Peruvian Government effort to step up trade and diplomatic relations with the Soviet Union and other East European nations. Relations with Moscow were established last Saturday, following establishment of ties with Yugoslavia, Romania, and Czechoslovakia earlier.

President Nixon is bound by law to suspend all United States aid and other assistance to a nation which refuses to negotiate on the expropriation of United States property. This requirement, known as the Hick-enlooper amendment, is part of the foreign aid legislation passed by recent congresses. Under the arrangement, the United States would also stop purchasing Peruvian sugar.

United States economic aid to Peru last year was \$15 million, military aid was \$6 million, and sugar purchases under quota were \$45 million.

This inflow of some \$70 million is important to an underdeveloped nation such as Peru. But Peru's army generals and colonels, who took power last Oct. 3 deposing the constitutional government of Fernando Belaunde Terry, are not expected to be intimidated by the threat of this cutoff.

In fact, it is thought that they could well spur them to move against other United States investments in Peru which total more than \$600 million.

Cerro, Xerox, and the telephone firm are seen as the most likely targets.

Cerro has large holdings here. Its largest activity is in the copper mining field and it is Peru's third largest taxpayer. One of its subsidiary firms, Cerro de Pasco Company, has already lost 18 cattle ranches, expropriated by the Peruvian Government soon after Gen. Juan Velasco Alvarado came to power in last October's coup.

In this case, contrary to the situation with IPC, the lands are being paid for by government bonds valued at \$620,000 and redeemable over 20 years. The government is also paying \$500,000 in case for installations and \$2.5 million for cattle. But some Cerro people are not happy with the agreement.

## Manager held

Xerox has had financial and other problems for some months. It recently was accused of violating import laws and its local manager, Len Ferrie, was held in custody for some weeks until a court absolved him and the company. But Gen. Armando Artola, Minister of Government, says he is dissatisfied with the court ruling and has ordered the case reopened.

ITT, the parent company of the telephone firm, came under attack this past week from El Comercio, one of Lima's leading morning papers which led the strong ITT morning papers which led the strong nationalist attack against IPC for nearly 10 years before its seizure last October. ITT officials have expressed concern over the developing situation in recent weeks.

For its part, the Peruvian Government, through a spokesman last week, said ITT operations "need to be looked into," adding that "a contract between ITT and the last government needs to be studied."

This is part of the mounting nationalist sentiment here. For years it was centered on the presence of IPC, the wholly owned Peruvian subsidiary of Standard Oil Company (New Jersey) which for more than 40 years operated in Peru. In fact, its facilities became the nation's principal source of petroleum products, serving both the local and foreign markets and winning praise for its marketing setup.

But the nationalist bent of many Peruvians worked against IPC. The case is an interesting one.

Last August, Peru's constitutional government worked out an accord with IPC under which it turned over its important La Brea-Parinás oil fields to Peru, ceding also its compressor plants, pipelines, tankage, and other producing facilities connected with the fields. The government for its part renounced any and all claims against IPC arising from the long-standing controversy. The government also accorded IPC's marketing and refining activities the same status under Peru's general petroleum law.

But the solution lasted only briefly. When

by the military on Oct. 3, the new government declared the IPC agreement null and void. And then the military seized the La Brea-Parinás oil fields and IPC's Talara refinery as well. The military leaders said any compensation for the seized property would have to take into account the company's debt to the government. These alleged debts amount to more than the assessed value of the seized IPC property.

IPC tried through the courts to get some redress. But its suits were thrown out on the grounds that military law in this case holds precedence over constitutional provisions and all previous decrees.

But IPC continued in business, purchasing oil products from the state oil enter-

prise, the Empresa Petrolera Fiscal, which had taken over operation of both La Brea-Parinás and Talara. Payments were made by **CIARDP78-03061A000400020009-8**

Then, shortly after the first of the year, another claim against the company was made—the \$15 million for the oil products purchased after take-over. IPC said the sum was unrealistic and based on a price structure so high it would cause the company to operate at a loss.

EPF attached IPC's assets and bank accounts on Jan. 16 to collect the claim, pursuant to a decree law passed two weeks before. The company was intervened the same day and EPF agents moved into the offices. Then on Jan. 28, company officials were removed and EPF took over total operational management.

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# Peru looks toward Soviet bloc for new trade

By James Nelson Goodsell  
*Latin America correspondent of  
The Christian Science Monitor*

Lima, Peru

Peru's military leaders are looking toward the Communist-bloc nations as potential trading partners.

Almost from the moment they seized power in early October of last year, the military indicated an interest in both diplomatic and trade ties with the Soviet Union and other East European nations.

But as relations with the United States have steadily worsened, this trend has become more insistent.

Diplomatic ties were established with the Soviet Union Feb. 1, following the renewal of relations with Czechoslovakia, Romania, and Yugoslavia late last year.

The trend reverses Peru's long-standing reluctance to do business with Soviet-bloc nations. And it apparently stems from a growing readiness on the part of some Peruvian business leaders, who support the military government, to look for new trade ties within the Communist world.

To observers here, the situation reflects a change in Peruvian attitudes which could well affect other nations in the hemisphere. **U.S. relations deteriorate**

A Soviet trade mission has arrived here and Gen. Edgardo Mercado, the Foreign Minister, said that the mission will discuss credit terms with "most favorable" interest rates and the possible export of Peruvian products to the Soviet Union.

The visit, according to government spokesmen, is clearly in line with the government's policy of diversifying Peru's markets and reinforcing the country's foreign commerce.

The **Approved For Release 1999/08/24 : CIARDP78-03061A000400020009-8**  
United States continue to deteriorate

result of the military government's seizure of the International Petroleum Corporation, the Peruvian subsidiary of Standard Oil Company (New Jersey) and one of the

largest foreign companies doing business here.

The IPC seizure, which came in stages but now is virtually complete, presents Washington with a serious policy dilemma. It gives President Nixon a problem even before he has worked out his Latin-American policy.

## New trade patterns sought

Under the Hickenlooper amendment to the foreign-aid measure, the United States is bound to cut off foreign aid and other assistance to a nation which takes over a United States-owned firm and fails to enter into negotiations to compensate the original owners. Peru has until early April to actually take such a step and while there is hope that some sort of accommodation can be worked out before then, the situation is not too promising.

Affected in addition to foreign aid would be Peru's sugar quota which earns \$45 million yearly in foreign currency, but which also is important because Peru, as a signatory to the world sugar agreement, can sell only about 60,000 tons of sugar on the world market over and above what the United States purchases.

With such a cutoff, the Peruvian military leaders would be hard put to replace the United States market. It may be that they are thinking ahead toward such an eventuality and hoping that the Soviet Union would be willing to purchase the sugar that the United States may reject.

Certainly the mood within government patterns, particularly with the Soviet Union

13 February 1969

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# U.S. scrambles to patch Peruvian dispute

By James Nelson Gondrell  
*Latin America correspondent of  
 The Christian Science Monitor*

With United States-Peruvian relations worsening steadily, Washington is desperately trying to find some solution to the crisis caused by Peru's expropriation of vast oil properties belonging to an American firm.

It wants a solution which will amount to a face-saving for both sides.

But whether such a solution is possible is a major question mark. There are some in Washington who feel the situation has already deteriorated beyond the point where face-saving can be achieved.

#### Debt asserted

One thing that hampers the new Nixon administration is the lack of time to work out a coordinated Latin-American policy. Decisions on the Peru case are being made against a vacuum in policy toward the Western Hemisphere. So far, President Nixon has not tipped his hand on what he hopes will be Latin-American policy for his administration, nor has he named his top advisers on Latin America.

The result is a major policy crisis before Mr. Nixon has a policy.

The new administration, however, is carrying on much as the Johnson administration did during its final months in the case of Peru. The State Department, for example, said over the weekend that it regretted a Peruvian Government statement that the expropriated International Petroleum Company (IPC) owed

#### Peru \$690 million.

A department spokesman commented on a speech Feb. 6 by Gen. Juan Velasco Alvarado, Peru's military leader, which asserted the back debts against IPC, a subsidiary of Standard Oil Company (New Jersey).

The claim allegedly represents the value of oil the company extracted during the 45 years it operated in Peru.

#### Fields seized

Peru's military contends that the company's title to the oil fields was invalid—although international arbitration, Peru's Congress, and other Peruvian decisions had supported the validity of the claim. The title to the old La Brea Pariñas oil fields was exchanged with the former government of Fernando Belaunde Terry last August for an operating concession.

But the Peruvian military, shortly after ousting the constitutional Belaunde government, seized the oil fields and the nearby Talara refinery, and subsequently took over the company's remaining assets, including a vast distribution service and the majority of Peru's gas line stations.

#### Amendment rapped

The State Department statement read: "This development does not appear to be leading to a resolution of the problem in accordance with international law."

But the niceties of international law do not appear to be

worrying the Peruvian military leaders. General Velasco told his nation in a radio-television appearance:

"No person with a conscience, no people, no government, not even a court of law, can any longer support the despoliation of the natural resources of a generous people who have always offered, and continue to offer generously, guarantees of law to foreign investors who came, are coming, and will come to live and work here honestly."

General Velasco also threw a challenge at Washington on the so-called Hickenlooper amendment to the current Foreign Assistance Act which provides for a cutoff in foreign aid and other assistance in case a country nationalizes American property without what is termed "prompt and adequate compensation."

It is obvious that the Peruvian military has no intention of compensating for the IPC property since it says that IPC owes a whopping near-\$700 million.

#### Cutoff scheduled

Under the Hickenlooper amendment, which General Velasco called "celebrated and profoundly sad," foreign aid will be terminated April 9. This cutoff will include both actual foreign aid and such additional items as Peru's lucrative sugar quota in the United States market. Both the aid cutoff and the sugar termination would be serious blows to the Peruvian economy.

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